

Message Text

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ACTION EA-12

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E.O. 11652: N/A
TAGS: EIND, ECON, CH
SUBJECT: CHINA BEGINS REORGANIZATION OF THE MACHINE-BUILDING INDUSTRY

REF: HONG KONG 8389

1. SUMMARY: CHINA'S FIRST MINISTRY OF MACHINE-BUILDING
(WHICH IS RESPONSIBLE FOR PRODUCING ALL NON-MILITARY MACHINERY
EXCEPT AIRCRAFT, SHIPS AND ELECTRONICS) IS REORGANIZING ITS
DEPARTMENTS AND ENTERPRISES ALONG LINES OF GREATER SPECIALIZA-
TION, IN ORDER TO REALIZE ECONOMIES OF SCALE. THE INITIAL
CONTOURS OF THIS REORGANIZATION ARE SIMILAR TO A 1964 PLAN
ADVANCED BY LIU SHAO-CHI PLAN TO CENTRALIZE CONTROL OF
INDUSTRY . END SUMMARY

2. ACCORDING TO NCNA (JULY 4), THE REORGANIZATION BEGAN IN
MARCH OF THIS YEAR WITH THE FARM MACHINERY AND AUTO INDUSTRIES.
AS AN EXAMPLE OF HOW THE NEW SYSTEM WILL WORK, NCNA REPORTS
THAT IN THE NORTHWEST REGION OF CHINA, SEVERAL PLANTS WERE
PLACED UNDER THE CONTROL OF A SINGLE FARM MACHINERY
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COMPANY. EACH PLANT HAS BEEN DESIGNATED TO PRODUCE A
SPECIFIC PART SUCH AS TRACTOR CHASSIS, DIESEL ENGINES, OIL
PUMPS, AND GEAR BOXES. OTHER PLANTS WILL ASSEMBLE
THESE COMPONENTS. UNDER THE FORMER SYSTEM OF ORGANIZA-
TION IN CHINA, EACH PLANT WOULD HAVE BUILT THE COMPLETE
TRACTOR FROM THE GROUND UP.

3. SO FAR THE REORGANIZATION MOST LIKELY HAS NOT ADVANCED BEYOND CHANGING THE LINES OF CONTROL ON ORGANIZATION CHARTS. PEKING MUNICIPALITY REPORTEDLY HAS CONSOLIDATED 144 MACHINERY PLANTS INTO 11 "GENERAL" PLANTS, HOWEVER, "COOPERATION" PLANS BETWEEN PLANTS ARE STILL BEING WORKED OUT. ALTHOUGH CERTAIN PLANTS HAVE ALREADY BEEN DESIGNATED TO BUILD SPECIFIC PARTS, SOME TIME WILL BE REQUIRED TO RETOOL THOSE PLANTS. 1980 HAS BEEN TARGETED AS THE COMPLETION DATE FOR CONVERTING THE PLANTS. IN ONE PLANT, FOR EXAMPLE, NCNA REPORTS THAT OUTPUT IS EXPECTED TO JUMP FROM 350 FIFTY-HORSEPOWER TRACTORS THIS YEAR TO 20,000 PER YEAR IN 1980.

4. COMMENT: REORGANIZATION ALONG LINES OF GREATER SPECIALIZATION APPEARS TO BE THE ORDER OF THE DAY IN ALL INDUSTRIES, NOT JUST MACHINE-BUILDING (SEE REFTTEL). PEKING HOPES THE REORGANIZATION WILL RESULT IN ECONOMIES OF SCALE. SPECIALIZED FACTORIES WOULD PERMIT CHINA TO ADOPT MORE AUTOMATED MANUFACTURING PROCESSES AND ADVANCED TECHNOLOGY.

5. BY BREAKING UP ALL-INCLUSIVE ENTERPRISES AND ESTABLISHING SPECIALIZED PRODUCTION UNITS, PEKING WOULD ALSO ACHIEVE INTERNAL ECONOMIES. IN PARTICULAR CHINA COULD ECONOMIZE ON MANAGERIAL TALENT, PERHAPS ITS SCARCEST RESOURCE. MANAGERS WHOSE PERFORMANCE RECORDS LIMITED OFFICIAL USE

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HAVE BEEN POOR PROBABLY WILL BE RELEASED TO DO OTHER WORK. PEKING MIGHT ALSO TAKE THE OCCASION TO SHUT DOWN UNPROFITABLE PLANTS.

6. THE REORGANIZATION WILL NOT BE WITHOUT COST, HOWEVER. SPECIALIZATION WILL PLACE GREATER DEMANDS ON CHINA'S ECONOMIC INFRASTRUCTURE -- TRANSPORTATION AND COMMUNICATIONS IN PARTICULAR -- AND WILL REQUIRE MORE DETAILED ECONOMIC PLANNING AT THE NATIONAL LEVEL. PEKING APPEARS TO HAVE BEEN GRAPPLING WITH THIS PROBLEM AT THE RECENT NATIONAL CONFERENCE ON TRADE AND FINANCE.

7. DURING THE CULTURAL REVOLUTION, MAO TSE-TUNG ACCUSED LIU SHAO-CHI OF SCHEMING TO CENTRALIZE INDUSTRIAL MANAGEMENT, SPECIFICALLY REBUKING LIU FOR ESTABLISHING A NATIONAL CORPORATION TO MANUFACTURE TRACTORS AND INTERNAL COMBUSTION ENGINES. IN THE NCNA ARTICLE JUST RELEASED, HOWEVER, LIU (ALONG WITH LIN PIAO AND THE "GANG OF FOUR") IS ALLEGED TO HAVE SABOTAGED THAT SAME CORPORATION. LIU'S ROLE IN HISTORY -- AND HIS ECONOMIC POLICIES -- MAY WELL BE A SUBJECT OF DEBATE IN PEKING TODAY.
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